RSC Republican Study Committee
Rep. Mike Pence (R-IN), Chairman
Sheila Cole, Executive Director
426 Cannon House Office Building
Washington, DC 20515
http://johnshadegg.house.gov/rsc/
ph (202) 226-9717 / fax (202) 226-1633

Legislative Bulletin…………………………….……………November 7, 2005

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Title IV – Committee on Financial Services

Background: Under the budget resolution (H. Con. Res. 95), the House authorizing committees were instructed to find savings to reduce the growth in mandatory spending. The House Financial Services Committee was originally tasked with finding $470 million in savings as part of a $35 billion package of savings over five years. Once the Republican Conference adopted the more ambitious goal of $50 billion in savings over five years, the authorizing committees were expected to find additional savings. However, the Financial Services Committee found no additional savings.

Savings to Taxpayers: According to CBO, Title IV would reduce federal spending by $470 million over five years (see Table 1). Such savings amount to 0.9% of the $53.9 billion deficit reduction package.

Table 1. Savings/Spending, Outlays In Millions

Committee on Financial Services	2006	2006-10
Deposit Insurance Reform	0	-200
Increase FDIC Limits	*(0)*	*(400)*
Changes to FDIC & NCUA Generating Premiums	*(0)*	*(-600)*
Federal Housing Administration (FHA) to Discretionary	-30	-270
Total Savings	**-30**	**-470**

Committee Action: On October 27, 2005, the House Financial Services Committee reported its submissions to the House Budget Committee to be compiled into one reconciliation package along with the submissions of the other authorizing committees. On November 3rd, the Budget Committee reported the package, the Deficit Reduction Act, for consideration by the full House of Representatives.

Subtitle A: Deposit Insurance Reform

***NOTE**: This subtitle is the same as H.R. 1185, which passed the House on May 4, 2005, by a vote of 413-10: http://clerk.house.gov/evs/2005/roll157.xml.*

This subtitle would make the following changes to federal deposit insurance:

- Increases the standard maximum deposit insurance limit from $100,000 to $130,000, and indexes it every five years for inflation beginning on April 1, 2007 (future inflation adjustments would take place on the first day of the appropriate calendar year). This new coverage level is doubled for certain retirement accounts to $260,000 (and subsequently adjusted for inflation). **Note: The Administration and Federal Reserve Chairman Greenspan have opposed these provisions in the past**.

- Merges the two insurance funds through which federal deposit insurance is provided, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), into a new Deposit Insurance Fund (DIF).

- Prohibits an insured depository institution that is not well capitalized or adequately capitalized (defined in the bill) from accepting employee benefit plan deposits. The Federal Deposit Insurance Corporation (FDIC) would have to provide pass-through deposit insurance for the deposits of any employee benefit plan.

- Increases the insurance coverage amount for in-state municipal deposits to the lesser of $2 million or "the sum of the standard maximum deposit insurance amount and 80 percent of the amount of any deposits in excess of the standard maximum deposit insurance amount." States could not prevent depository institutions from accepting, or municipal depositors from making, such covered deposits.

- Allows the FDIC to charge risk-based premium assessments, but provides that no depository institution could be barred from the lowest-risk category solely because of its size. In addition, the legislation eliminates the existing restrictions on the FDIC's authority to levy assessments on any institution above amounts needed to achieve and maintain the existing ratio (of reserves to estimated insured deposits) of 1.25%.

- Provides for a 50% discount in the assessment rate for deposits attributable to "lifeline" deposit accounts (accounts aimed at helping poor communities with limited financial resources) and repeals the requirement that credits for such accounts be funded from congressional appropriations.

- Authorizes the FDIC to set the ratio of reserves to estimated insured deposits in the DIF within a range of 1.15% to 1.40% (using certain named factors), replacing the 1.25% "hard target" mandated by current law.

- Directs the FDIC to collect information from all appropriate sources in determining risk of losses to the DIF, without imposing additional record-keeping requirements on insured depository institutions.

- Provides for refunds, credits, and dividends for the return of excess assessments that insured depository institutions have made and/or whenever the DIF's level is considered strong and the financial and economic outlook is considered favorable. Dividends would be provided to depository institutions whenever the upper limit of the designated reserve ratio (1.40%) is exceeded. When the DIF exceeds 1.35% and is less than or equal to 1.4%, the FDIC would have to provide a cash dividend equal to one-half the difference between the actual fund balance and the fund balance required to maintain a reserve ratio of 1.35%.

- Provides federally chartered credit unions with parity in general standard maximum deposit insurance coverage, coverage for retirement accounts, and municipal deposits.

- Requires the FDIC to develop a "Deposit Insurance Fund Restoration Plan" when reserve ratios fall below or are projected within six months to fall below designated levels. The goal would be to restore the DIF's reserve ratio to the minimum amount within ten years.

- Directs the Comptroller General to report to Congress on the effectiveness of the FDIC's organizational structure and directs the FDIC to report to Congress on the feasibility of:
  - establishing a voluntary deposit insurance system for deposits in excess of the maximum amount of deposit insurance for any depositor;
  - privatizing all deposit insurance at insured depository institutions and insured credit unions; and
  - using actual domestic deposits rather than estimated insured deposits in calculating reserve ratios.

- Directs the FDIC to conduct a bi-annual survey on efforts by insured depository institutions to bring the "unbanked" into the conventional finance system and report its findings and recommendations to Congress.

Additional Background: The FDIC, which insures deposits in banks and thrift institutions for up to $100,000 per account, was created in 1933 in response to the thousands of bank failures that occurred in the 1920s and early 1930s. The FDIC reports that since the start of FDIC insurance on January 1, 1934, "no depositor has lost a single cent" of insured funds as a result of a bank or thrift institution failure.

To read more about the FDIC, visit this webpage: http://www.fdic.gov/about/learn/symbol/index.html

Does this Subtitle Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: Yes, as follows:

State and Local Government: States could not prevent depository institutions from accepting or municipal depositors from making insured, in-state municipal deposits. [This would apparently pre-empt New York State laws that limit savings banks and savings and loan associations from accepting municipal deposits.]

Private Sector: Most depository institutions would have to pay higher premiums for federal deposit insurance (mainly because of the higher amount covered per account). CBO estimates that depository institutions would pay about $1.1 billion more in net premiums in fiscal years 2007 through 2011, relative to current law. The incremental cost to the industry would depend, in part, on how the FDIC uses its new discretion under the bill to set premium rates. CBO expects that the FDIC would begin to collect premiums from banks and savings associations that are not required to pay premiums under current law.

Because H.R. 1185 also would increase the coverage of insured accounts for federally insured credit unions, those credit unions would have to contribute more to the National Credit Union Insurance Fund. CBO estimates that those additional contributions would total about $100 million over the 2006-2010 period.

The bill also would prohibit depository institutions that are not well or adequately capitalized from accepting deposits for employee benefit plans.

Subtitle B: FHA Asset Disposition

This subtitle would transform the Federal Housing Administration's (FHA) authority for rehabilitation grants and below-market sales from mandatory to discretionary for fiscal years 2006 through 2010. During this period, **these activities could still be funded** through the annual appropriations process. After FY2010, these activities would return to being mandatory spending (using FHA's permanent funding authority from the General and Special Risk Insurance Fund liquidating account).

Some conservatives may be concerned that this reform does not achieve actual dollar-for-dollar savings, because the Committee has shifted what was a mandatory spending program into a discretionary spending program, and thus CBO's budget projections rely on the appropriations process finding $270 million in savings in the FHA's rehabilitation grants and below-market sales (or elsewhere). Though this provision is scored by CBO as saving funds for the purpose of reconciliation, it relies on future action by the appropriations committee and both houses of Congress. Accordingly, if this provision were not counted, the Committee would have failed to reach its reconciliation target.

Additional Background: FHA often provides rehabilitation grants to purchasers when selling defaulted properties. To preserve a defaulted property as affordable housing, FHA can now sell that property at below-market rates. This legislation would prevent such below-market sales, unless Congress appropriates in advance any amounts to make up for lost revenues (from below-market sales).

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

RSC Staff Contact: Paul S. Teller, paul.teller@mail.house.gov, (202) 226-9718